Oil and Gas News Briefs
Compiled by Larry Persily
August 17, 2023

China's imports of Iranian crude at highest level in a decade

(Bloomberg; Aug. 15) - Chinese imports of sanctioned Iranian oil are running at the highest level in at least a decade as rising global prices make the discounted crude more attractive, according to data intelligence firm Kpler. Iran has been ramping up oil exports this year as it becomes more geopolitically assertive, with most of the shipments heading to China. The easing of a probe by Beijing into imports of bitumen mixture, which Iranian crude is sometimes disguised as, also appears to be speeding the passage of cargoes through customs, according to traders involved in the market.

The world's biggest oil importer will take about 1.5 million barrels a day of crude from Iran this month, according to an estimate from Kpler. That compares with an average of 917,000 barrels a day in the first seven months of the year and would be the highest in the Kpler figures that go back to 2013. A jump in price of about 20% in global benchmark Brent crude since late June is raising demand for the cut-price Iranian oil, much of which is bought by independent refiners clustered in Shandong province.

Iran's two main grades are currently trading at discounts of more than $10 a barrel to Brent, traders said, and are considerably cheaper than Russian varieties. "The higher prices go, the better risk-reward ratio for Shandong refiners to look for Iranian crude," said Homayoun Falakshahi, a senior oil analyst at Kpler. The oil is often classified as coming from Malaysia in Chinese government data and can be sometimes reported as a diluted bitumen blend if it's mixed with heavier Venezuelan crude, he said.

Big Oil faces hard decisions on what to do with its cash

(Wall Street Journal; Aug. 14) - Wall Street wants Big Oil's cash. Washington wants it to drill more. Keeping them both happy will get a lot tougher. Armed with a mountain of cash after Russia's war on Ukraine sent oil prices skyrocketing, U.S. oil and gas firms cranked up production to near-record levels while also raining money on shareholders with dividends and buybacks. The investor windfall and a recent run-up in oil prices helped make the energy sector the S&P 500's best performer over the past month.

But oil prices are still considerably below last summer's highs, dragging down producer revenues. That is going to mean hard choices for businesses such as international major oil companies and independent drillers, as well as for energy investors. How the industry uses its cash in coming years has huge implications for U.S. drivers and energy investors. Investment in the American oil patch last quarter outpaced shareholder returns for the first time since Russia's invasion, according to Evaluate Energy.

Better-than-expected production in recent months has led federal officials to bump their U.S. output projections for this year to a record 12.8 million barrels of crude a day. Many Wall Street analysts expect the recent rebound in oil prices to continue, potentially giving an incentive for more drilling. But other investors remain wary about boosting production. The U.S. and European Union are encouraging more clean energy with a wave of subsidies intended to curb fossil fuel use in the coming decades. The choices are not easy between investing in new oil or simply returning cash to shareholders.

Norwegian fund CEO warns of political resistance to climate efforts

(Financial Times; London; Aug. 15) - The head of the world's largest sovereign wealth fund has expressed concern that political resistance to climate and environmental measures is spreading from the U.S. to the U.K. Nicolai Tangen, chief executive officer of Norway's $1.4 trillion oil fund, told the Financial Times. "A new thing this summer is the ESG (environmental, social, governance) backlash in the U.K. … That's bad. You have a big country in Europe that is slowing down the work on climate at a time where it's more important than ever."

The U.K.'s opposition Labour Party failed to win a by-election in the outer London constituency of Uxbridge last month, despite being far ahead of the ruling Conservatives in many national polls. Both sides have taken this as evidence that voters are unhappy with green policies. Earlier this year, London's Labour Party Mayor Sadiq Khan extended the reach of vehicle emissions charges to outer London to improve air quality.

Tangen said climate change is an increasing financial risk and should not be a matter of politics. "To me, climate is about as political as gravity. It's just not political. I don't understand how you can turn this into politics." Norway's oil fund is one of the most influential investors in the world, owning on average more than 2.5% of every listed company in Europe. It is funded from revenues from the country's oil and gas revenues. Under Tangen, it has been putting more pressure on companies it owns shares in to take action on climate change.

Canada will create structure for Indigenous investment in oil line

(Bloomberg; Aug. 9) - Canada plans to sell a stake in the Trans Mountain oil pipeline to individual Indigenous communities through a special-purpose vehicle, allowing the government to balance competing groups' requests to own a piece of the controversial project. The groups will be provided with access to capital, so they don't have to risk their own money to participate, according to a letter from Deputy Prime Minister Chrystia Freeland’s office seen by Bloomberg.

The communities’ equity interest in Trans Mountain will provide them with cash flow and allow them to jointly exercise governing rights, according to the letter, which was dated Aug. 2. The plan partly clears up how Prime Minister Justin Trudeau’s government will handle the sale of the pipeline that his administration saved from cancellation by buying it for C$4.5 billion (US$3.3 billion) in 2018. Project costs have since ballooned to C$30.9 billion amid repeated delays and construction setbacks. Some of the costs will be paid by users of the line; taxpayers also may be left to bear a hefty write-down on the project.

While some Indigenous groups have opposed the Trans Mountain expansion, which crosses through many of their territories, others have banded together into bidding groups to pursue stakes in the pipeline to generate revenue for their communities. The government will soon begin discussions with Indigenous groups along the pipeline route, according to the letter. The expanded pipeline will provide capacity to move 890,000 barrels per day from Alberta to a coastal marine terminal in British Columbia — almost three times the capacity before the project.

Decline in U.S. shale well production rate worse than expected

(Bloomberg; Aug. 15) - The steep drop in output from U.S. shale wells is turning out to be worse than expected, forcing oil drillers to work even harder to keep production from slipping, research firm Enverus said in its latest report. The firm’s conclusion that there won’t be a surge of American oil production comes after the amount of crude extracted from U.S. shale wells doubled in the past decade.

The falling output rate over time highlights a fact of life for shale explorers: Oil wells are most prolific in early months of production, with gushers quickly turning to trickles. That reality is why oil output boomed during the shale revolution of the 2010s as companies chased production growth at all costs. Now, however, most of the prime land is already owned or leased, offering fewer opportunities to drill new areas with vast oil reserves.

Companies are considering a range of drilling and production strategies to maximize what they get out of each well such as drilling wells closer together, which makes the shale patch a more dense and more difficult place to increase the rate of production. “Summed up, the industry’s treadmill is speeding up and this will make production growth more difficult than it was in the past,” said Dane Gregoris, managing director at Enverus Intelligence Research and author of the report published on Aug. 15.

North Dakota oil output highest since December 2020

(Minneapolis Star Tribune; Aug. 15) - North Dakota's petroleum industry had its best month in 2½ years in June as oil production climbed 3% and natural gas output rose 3%, according to data released on Aug. 15. "All of the numbers are really good news," said Lynn Helms, head of the state's Mineral Resources Department. North Dakota is the nation's third-largest petroleum producer after Texas and New Mexico. It pumped 1.17 million barrels of oil a day in June, its highest output since December 2020.

That's still well below North Dakota's highwater mark of 1.52 million barrels per day in November 2019. But June caps the best six-month production period since the end of 2020, state data indicates. North Dakota's drilling rig count — a harbinger of future production — has been rising. There are 41 rigs drilling new oil wells this month, up from 37 in July and June.

North Dakota also set a record for the number of producing oil wells in June: 18,085. Compared with a few years ago, the state has more active wells but less oil production as its industry has matured. Helms said companies are moving beyond the "core" of the state's Bakken oil fields onto second-tier and third-tier lands. He said new production technologies could allow secondary fields to produce levels on par with the core itself.

Ukrainian attack in Black Sea may push more Russian oil via Arctic

(High North News; Aug. 15) - The Black Sea represents a key outlet for Russian oil to markets. Every month the country exports about 60 million barrels of crude oil, a third of its total, via the port of Novorossiysk. But earlier this month, Ukraine used an unmanned sea drone to target and damage a Russia-flagged oil tanker in the Black Sea. Ukrainian officials declared the waters surrounding Novorossiysk "a war risk area" stating, "there are no more safe waters or peaceful harbors for (Russia) in the Black and Azov seas."

As the result of the attack, insurance rates for vessels traveling across the Black Sea have skyrocketed, impeding Russia's ability to export oil via this route. Many operators may simply choose not to travel into that area anymore, Byron McKinney, director with S&P Global Market Intelligence, told Politico last week. The developments in the Black Sea could accelerate Russia's efforts to use the Northern Sea Route to ship crude oil to international markets, especially in Asia.

In the past month alone, the country has dispatched six oil tankers to China via the Arctic, a six-fold increase over the entirety of 2022. While Russia also sends crude oil to China via pipeline, those routes are maxed out. Russian throughput to the Baltic ports of Primorsk and Ust-Luga, connected via the Baltic Pipeline System, could, be increased. From those two Baltic ports, tankers could then carry some of the oil via the Arctic to Asia during the summer and fall. Russia's pipeline operator Transneft has been in the process of further expanding pipeline capacity in that region.

[Sea ice delays Russian oil tankers in the Arctic]

(The Barents Observer; Norway; Aug. 11) - The oil tankers Primorsky Prospect and NS Arctic set out from St. Petersburg on July 12 and 14, respectively, headed to the Chinese ports of Dalian and Rizhao. Although both have ice classification Arc3, their voyage across the Laptev Sea and East Siberian Sea have been marred with troubles with sea ice, delaying their arrival by at least a couple of weeks.

For several days, the tankers were at standstill off the New Siberian Islands, and later in the southern part of the East Siberian Sea. Growing parts of the East Siberian Sea are ice free, but changes can quickly occur in this region and a sudden emergence of ice pack might have taken the ships by surprise. “Perhaps the wind has pushed the ice pack toward the coast, increasing the concentration locally so that there’s no longer a continuous green strip along the coast?” an industry expert said.

As of Aug. 11, the tankers were again on the move in a convoy escorted by a nuclear icebreaker. Nevertheless, the long and icy voyage of the tankers raises new questions about the benefits of sailing the Northern Sea Route, as well as security in the area. Neither of the two tankers has permission to sail independently through the most complex parts of the route in anything but light ice conditions. According to the industry expert, ships with low ice class like the NS Arctic and Primorsky Prospect are likely to experience waiting periods in their voyages.

[Production platform arrives on site for Russian Arctic LNG project]

(High North News; Aug. 14) - After more than three years of construction and a three-week towing operation supported by a dozen ships, the world’s largest floating platform ever constructed arrived at the Arctic LNG-2 site in Russia, where it will be married with land-based infrastructure. LNG production is set to start before the end of the year. Gas producer Novatek achieved a major milestone this week with the arrival of the first production line of its LNG project, which was built atop the floating platform.

The first production line of the new plant consists of 14 liquefaction modules prefabricated in China. The individual sections were assembled and installed onto a gravity-based structure at a construction yard near Murmansk. With a length of 1,090 feet, a width of 505 feet and a weight of 640,000 tons, the platform is the largest floating structure in the world.

Novatek said two more platforms will follow in 2024 and 2026, bringing Arctic LNG-2’s production capacity to 19.8 million tonnes of LNG per year. The project is about 45 miles across the Gulf of Ob from Novatek’s first LNG project in the Arctic, Yamal. Unlike Yamal LNG, which has sent about 80% of its annual production to Europe since it started operation in 2017, Arctic LNG-2 will pivot to the East. Japanese and Chinese interests hold a combined 30% stake in the export project.

[Risky trade develops storing gas in Ukraine underground caverns]

(Wall Street Journal; Aug. 16) - A daredevil trade is in vogue among commodity merchants: stashing natural gas in caverns in war-torn Ukraine. The wager could reap hundreds of millions of dollars in profits collectively for traders such as Trafigura, Vitol and Gunvor, people familiar with the matter said. Others looking to cash in include oil and gas giants such as Shell and utilities such as Switzerland's Axpo.

Traders are getting paid to stockpile power-generation and heating fuel for Europe ahead of winter. So much gas has flooded in from the rest of the world to replace Russian fuel that prices have fallen more than 80% over the past year. That will make the trade a lucrative one when the traders resell the gas, if all goes well. The danger isn't that the gas goes up in smoke. It is housed nearly a mile underground in depleted gas reservoirs and aquifers, mostly away from the front line. But traders' profits could evaporate if shells strike pipelines or compressor stations and trap the gas in Ukraine.

Another risk is that "the government says 'I have to confiscate the gas'" if Ukraine's energy situation worsens, said Martin Pich, trading director at MND, a Czech energy company. "You are looking at the potential profit, versus the losses that you could face in these scenarios." Gas flows picked up speed in recent weeks into the Ukrainian caverns, by far the biggest storage sites in Europe. The gas comes from all over the world: some shipped as liquefied natural gas and fed into Europe's pipeline network.

[Troubled LNG developer could rely on early sales to finance project]

(Reuters; Aug. 14) - Tellurian, developer of the Driftwood LNG project, last week told potential investors that it might sell the first six months of its LNG output to help finance the long-delayed project. Tellurian has been struggling to find customers and investors for the first phase of the $14.5 billion Louisiana plant. In a new investor presentation on its website, Tellurian said $2.5 billion in equity financing could be covered by six months of initial output. A Tellurian spokesperson did not reply to requests for comment.

Tellurian revealed in an Aug. 1 securities filing that trader Gunvor terminated its contract to take cargoes from Driftwood, leaving the developer with no signed customers and jeopardizing financing efforts. The company's latest proposal is to sell its initial cargoes to cover financing, before any contracted deliveries start up. Jason Feer, head of business intelligence at LNG shipping and brokering firm Poten & Partners, called the approach transparent and creative for alerting potential customers ahead of production.

The bigger question is whether Tellurian will be able to sign up enough investors to bring Driftwood LNG to fruition, said Alex Munton, a director at consultants Rapidan Energy Group. "There is this heightened need to be crystal clear from an investor standpoint as to exactly when the supply of those cargoes will start," Munton said.

[Tellurian continues work on project that lacks customers, investors]

(LNG Prime; Aug. 16) - LNG export terminal developer Tellurian is working with energy services firm Baker Hughes to secure long-lead items for its proposed Driftwood LNG project in Louisiana, while engineering and construction giant Bechtel continues to progress with initial ground work at the site. Tellurian issued a limited notice to proceed to Bechtel in March last year. Bechtel has driven more than 9,000 piles and poured over 10,000 cubic feet of concrete for the first phase of the export project.

But Tellurian, which expects development costs for the first phase of Driftwood LNG to reach $14.5 billion, is struggling to sign up customers and investors for the project. The first phase is planned for 11 million tonnes per year of LNG production. Tellurian's co-founder and executive chairman Charif Souki said in a video update last week that the "next step forward on Driftwood is to start securing long-lead items, mainly the turbines and the compressors."

Tellurian said it is seeking partners to invest more than half of the equity for the first half of Phase 1 construction. To raise its own cash to continue work, Tellurian entered last month into a binding commitment letter with a fund of Blue Owl Real Estate Capital to sell the investment firm the land for Driftwood LNG and then lease it back.

[Louisiana LNG hopeful takes in equity partner]

(Oil & Gas Journal; Aug. 14) - Commonwealth LNG has partnered with Kimmeridge Energy Management for development of its proposed $4 billion liquefied natural gas export project in Cameron Parish, Louisiana, designed for 9.3 million tonnes per year of output capacity. Commonwealth said in a news release Aug. 14 that it expects to make a final investment decision next year, a year later than planned. The alternative-asset management firm will provide an undisclosed amount of capital for the project.

Commonwealth LNG and Kimmeridge have also agreed in principle on terms for a 20-year off-take commitment of 2 million tonnes per year, raising the project's total off-take deals to 5 million tonnes per year. The agreement also includes terms for Kimmeridge to provide additional equity to support plant construction, Commonwealth said. The company CEO said gas shipments could start as soon as 2027, after completion of front-end engineering and design and a final investment decision. The project received Federal Energy Regulatory Commission approval last year.

[Nigeria looks toward offshore LNG production]

(S&P Global; Aug. 14) – Nigeria, which is already home to a six-train LNG plant with 22.5 million tonnes annual production capacity, is making progress with development of offshore LNG production as it looks to monetize its vast gas resources. As well as expanding the onshore plant to 30 million tonnes with construction of a seventh train, work is underway to deploy floating LNG infrastructure in the West African country.

State-owned Nigerian National Petroleum Corp. this month agreed to new terms with Golar LNG for potential deployment of a floating liquefaction facility. Back in 2021, Nigeria launched its road map on gas development known as "The Decade of Gas" and promised new efforts to advance its gas sector to underpin economic development. The government is focusing not only on developing the country's estimated 203 trillion cubic feet of proved gas deposits but also unlocking up to 600 tcf in unproven resources.

Offshore LNG production remains a relatively new technology — examples include Shell’s Prelude facility in Australia, the Cameroon FLNG plant in that African nation and the Eni-led Coral Sul project in Mozambique. Golar LNG said on Aug. 10 that it had made "strong" progress toward potential deployment of its LNG production vessels to various offshore gas fields in Nigeria.

More natural gas liquids and biofuels are feeding refineries

(Bloomberg analysis; Aug. 14) - To judge by the energy industry’s most trusted forecasters, consumption of crude oil is blasting ahead with no peak in sight. Usage will rise to a record 102.2 million barrels a day this year, the International Energy Agency said on Aug. 11. It will still be climbing at a brisk pace when it hits 105.7 million at the end of the IEA’s current five-year forecast in 2028. Demand for oil will rise by roughly 7.5 million barrels per day between 2021 and a peak in 2040, according to ExxonMobil.

That’s hard to square with the picture on the ground. Saudi Arabia said earlier this month that it would extend its production cuts of 2 million barrels a day into September and consider deepening them further. China’s gasoline demand will peak this year, two years earlier than expected, due to the rapid uptake of electric vehicles, an official with China National Petroleum Corp. said. China’s overall oil demand may have peaked in the second quarter this year, dashing expectations of surging imports later in 2023.

The disconnect makes more sense if you consider just how slippery the term “oil” can be. A century ago, it was simple. A refiner would buy crude and process it into fuel for engines and boilers. If you counted the barrels leaving refineries and made a few adjustments, you had a decent proxy for “oil demand.” That’s changed. Though we still count “oil demand” in roughly the same way, biofuels, plus a suite of volatile chemicals from gas wells (known as natural gas liquids) now constitute nearly a fifth of the feedstock for the world’s oil processors.

That shift explains the disconnect. To most of the world, “oil” is synonymous with “crude oil.” To energy analysts, however, “oil” is synonymous with “refinery products” — and increasingly, the raw materials come not from oil fields but from gas wells and farms.

Output from refineries will be up about 1.7 million daily barrels this year, compared to its pre-pandemic peak in 2019. Almost all of the increase comes from NGLs and biofuels. Crude oil production may peak before a decline in the consumption of refined products.

UAE company wants to invest in international LNG projects

(S&P Global; Aug. 16) - The UAE's Abu Dhabi National Oil Co. is looking to acquire natural gas assets after buying a stake in an Azerbaijan field amid a new strategy to invest in international gas projects, which would involve a wide gamut of its business, including LNG trading, a senior executive told S&P Global Commodity Insights.

After making its first major international gas investment in Azerbaijan's Absheron gas and condensate field in the Caspian Sea, the Abu Dhabi company is eager to expand further into the global liquefied natural gas business with an eye on high margins from these investments, Musabbeh al-Kaabi, executive director of low-carbon solutions and international growth, said in an Aug. 15 interview.

"We are executing a strategy that complements our strength," said Kaabi. ADNOC, which has the capacity to produce 6 million tonnes per year of LNG and is building two liquefaction trains in Abu Dhabi totaling an additional 9.6 million tonnes per year of output, is agnostic as to where it invests in LNG. "If there is an LNG project anywhere, east or west, that meets our investment criteria, strategic rationale and the ability to create more value by building on our strength, including trading, we'll look at it," he said.

Markets react to strike threat at Australia LNG plants

(Reuters commentary; Aug. 15) - The comfort that had characterized natural gas markets in Asia and Europe in recent months was shown to be a mere illusion by the threat of strike action at three major Australian liquefied natural gas plants. In the blink of eye, a market that had looked well supplied and relaxed was turned into a flighty wreck, with prices jumping higher on only the possibility of unspecified labor action at LNG plants operated by Woodside Energy and Chevron in Western Australia.

The spot price of LNG for delivery to North Asia climbed to $11.50 per Btu in the week ended Aug. 11, the highest in a month and up 5.5% from the prior week's $10.90. But the impact of the strike threat at gas fields that feed the Woodside-operated North West Shelf LNG plant, Australia's largest, and at Chevron's Gorgon and Wheatstone operations was more keenly felt in Europe. Benchmark Dutch gas prices jumped 28.3% from the close on Aug. 8 to the finish on Aug. 10 amid reports of the looming strike.

Woodside and Chevron are talking with unions at the LNG facilities, and it's not yet clear what form any strike action would take, assuming no agreement is reached. It could range from minor actions, such as limited work pauses, to an all-out strike. But even the hint of a threat to supplies was enough to spook markets, a reminder that nerves can easily be unsettled in the aftermath of last year’s surge in LNG prices as Russian pipeline gas flows to Europe were curtailed following Moscow’s invasion of Ukraine.